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DIRECTED RESERCH: BANKS, ECONOMIC GROWTH AND MONETARY  
POLICY IN FRANCE

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## Purpose of the project

Finance and economic growth: Those two notions are, nowadays, in the centre of the public and political debate. First of all, let us go back few years ago. We are in 2008, on September 15th, and Lehman Brothers files for bankruptcy. That is the beginning of a global financial downturn, not only in the United States, but all over the world. This crisis spread out across the world through different channels such as the decrease in demand and confidence, the tightening of credit supply and the slow down of international trades. At the European level, this crisis leads to a massive deterioration of public finances. Today, after years of bailouts and restructuring plans, certain countries from the south are slowly recovering, Germany experiences economic growth and trade surpluses, while France, which is considered as a driving country in Europe, still struggles to boost its own economy. The GDP stagnates; inflation is very low and unemployment keeps on rising. Some economists made assumptions saying that the French economy would be impervious to the French Government and European Central Bank's monetary policies assuming that a policy made by a Europe-wide institution would not necessarily fit a nation-based system.

In this context, it seems legitimate to wonder to what extent a monetary policy decided at the European level does not necessarily fit the situation of France. Indeed, given the organisation of the European and French banking system and the characteristics of the French economy, what are the different obstacles that could represent a threat to an effective conducting of the European Central Bank's monetary policy?

To answer that question, we will, in the first part, analyse the relationship between finance and economic growth, trying to appreciate the impact that creation of wealth could have on finance and vice versa. Also, we will clarify the missions of the different

banking institutions and make a quick presentation of the different tools used by the ECB to implement its monetary policy. Finally, we will base our analysis on a previous work trying to understand the difficulty for the ECB to establish a common monetary policy for an heterogeneous area. Starting from this point, we will better understand which levers the ECB gets in order to enhance the Euro Area's economy

In a second part, we will focus on the characteristics of the French economy in order to better comprehend the different factors impacting the activity. Thus, we will point out the vicious cycle: unemployment, lack of confidence, atonic growth in which France is currently trapped.

Finally, we will focus on the different obstacles that can represent a threat to an efficient monetary policy. Whether structural or due to the banking regulation, some issues could negatively impact the expected effect of the monetary policy.

## Literature Review

Adam Smith<sup>1</sup> said: “It is not by augmenting the capital of the country, but by rendering a greater part of that capital active and productive than would otherwise be so, that the most judicious operations of banking can increase the industry of the country.” Bringing back this quote to the situation of crisis France and the Eurozone are facing, we can better appreciate the arduous responsibilities of the European Central Bank and its monetary policy. But before starting our analysis, it seems essential to remind the meaning of certain notions. Indeed, economic growth, inflation, or money supply, are concepts that will be frequently used during this analysis.

First of all, economic growth usually refers to as an increase in the GDP (Gross Domestic Product). The IMF defines it as an indicator measuring “the monetary value of final goods and services —that is, those that are bought by the final user—produced in a country in a given period of time”. Thus, by “economic growth”, we mean the evolution of wealth produced in a country between year Y and year Y-1. Inflation is a loss of buying power of a currency. This loss is characterized by a sustainable increase in prices. Once again, being a rate, it represents a year-to-year change.

Finally, there is the concept of money supply. The different tools created by the ECB most often lead to expand it and enhance economic variables. In that context, money supply or money stock refers to as the total quantity of money available in a country’s economy, from the currency in circulation to the long time deposits and money market assets.

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<sup>1</sup> Adam Smith (1723 - 1790) was a Scottish moral philosopher and a pioneer of political economy

## 1 Banking system and economic growth

### 1.1 Finance and economic growth: a powerful relationship

#### 1.1.1 Theoretical evidences: The model of Rajan and Zingales

Allowing capital development and investments in innovation, finance is the cornerstone of the economic growth process. Indeed, an economic development is only possible if adding to the human capital, improved technologies and commodities are available. So far, the ability to invest in new technologies or simply spread them to the world is possible only with financing. Over time, economists and historical frameworks have pointed out that the financial system could explain many fluctuations in economic growth. For instance, Rondo Cameron (1925 – 2001), specialist in economic history, explained in 1967 that the proliferation of the number and the variety of financial institutions would be a specific characteristic of economic development. One of the most recognized frameworks developed by Rajan and Zingales has pointed out that “financial development has a substantial supportive influence on the rate of economic growth”. After comparing different productive sectors within one country, they found out that the sectors needing external financing in order to develop themselves should be more able to get it as the financial system is developed. Indeed, as it is advanced, the cost of financing should decrease stimulating the demand. Thus, it should have a direct impact on the creation of new firms, the enhancement of innovation, and economic growth

Also, when mentioning the path of causality between economic growth and financial sector development, different theories arise. Following J. Schumpeter<sup>2</sup> in 1912, causality would start from the financial development toward economic growth

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<sup>2</sup> Joseph Aloïs Schumpeter (1883-1950) was an Austrian - American economist recognized for his theories on economic fluctuations, creative destruction and innovation.

considering the financial system as an introducer of resources toward productive investments and innovations. Conversely, Joan Robinson<sup>3</sup> in 1952 changed the path of this causality when asserting: “when the enterprise leads, finance follows”. This clearly means that economic growth, through companies’ needs leads to a new kind of demand in financial services. Thus, on one way or another, it forces the financial system to adapt.

## **1.2 Distinction between banking system and financial market**

### **1.2.1 The banking system finances the real economy**

When discussing finance, it seems important to make the distinction between the two main structures that compose it: the banking system and the financial market. Unlike the financial market, the banking system is the structure that is the most able to finance the economy. As Pascal de Lima states in his book “Economie bancaire et croissance économique”, the banking system finances the real economy with what is called the banking intermediation. Being a direct interface with the real economy, it establishes and evaluates the financing capacities and needs of all the economic agents. Therefore, by financing projects whether privates or publics, the banking system participates in injecting money into the real economy. In contrast, with its multiple non-identifiable actors, the financial markets do not represent a direct interface with the economy. Only large companies or governments use it to finance their investments.

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<sup>3</sup> Joan Violet Robinson (1903-1983) was a British economist recognized for her work on monetary economics.

### 1.3 Banking organization within the Eurozone

#### 1.3.1 European Central Bank: The decision maker

“The European Central Bank is the bank for Europe’s single currency, the Euro”<sup>4</sup>. This bank is part of the European System of Central Banks with the central banks of the 28 European Union’s countries, and of a cooperation referred to as the Eurosystem. Nowadays, the ECB has three different decision-making bodies: the Executive Board, the Governing Council and general council. Coming into being on June in 1998, The European Central Bank had to pave the way for a first use of the Euro in 1999. Now the ECB’s tasks have changed and adapted to the European Union situation. “The primary objective of the European System of Central Banks [...] shall be to maintain price stability”<sup>5</sup>. Indeed price stability is a key element that may enhance economic growth. It ensures various edges by, for instance, contributing to an improved level of confidence, social cohesion and politic stability. Price stability also impacts growth either by improving the competitiveness in exportations or by reducing the rate of inflation. In order to achieve this objective, the ECB has to define and implement a monetary policy adjusted to all the members of the Eurozone. Besides, the ECB also carries on other different tasks which consist in conducting foreign exchange operations, managing foreign currencies level, and ensuring the well-functioning of the payment system.

#### 1.3.2 European Central Bank’s monetary policy

##### 1.3.2.1 Tools

“Open market operations play an important role in steering interest rates, managing the liquidity situation in the market and signalling the monetary policy stance”<sup>6</sup>. Indeed, open market operations are an influential apparatus used by the ECB as it enables the

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<sup>4</sup> [www.ecb.europa.eu](http://www.ecb.europa.eu)

<sup>5</sup> <https://www.ecb.europa.eu/ecb/tasks/html/index.en.html>

<sup>6</sup> <https://www.ecb.europa.eu/mopo/implement/intro/html/index.en.html>



management of money supply. How does it work? By increasing the money supply, the ECB lends money to commercial banks against collaterals (guarantee). The collaterals highly appreciated by the ECB are the government's bonds. That is a reason why commercial banks usually buy bonds to the government; they give them as collateral to the ECB. Now that commercial banks received cash from the ECB, they directly inject it into the system in the form of loans to individuals or businesses. Thus, as there is more cash in the banks, short term interest rates should decline dragging the cost of borrowing down. Consequently, investment should rise and help to drive up economic growth. There are four different types of OPO: Main Refinancing Operations, Longer Term Refinancing Operations, Fine-tuning Operations and Structural operations. Regarding interests, governments pay interest to commercial banks and the commercial banks pay them to the ECB, which redistribute them to the government.

Standing facilities are apparatus of the monetary policy managed in a decentralized manner by the different central banks. Also, regarding the degree of liquidity a bank must hold, it happens that, at the end of the day, some of them have a surplus of cash while the others need a larger balance. Therefore, standing facilities are made to enable banks to deal with these overnight situations. The Banque de France uses two different standing facilities, the marginal lending facility and deposit facility.

“The ECB requires credit institutions to hold minimum reserves on accounts with the NCBs within the framework of the Eurosystem's minimum reserve system”<sup>7</sup>. In France, the amount is deposited on an interest-bearing account at the Banque de France, the rate being the Eurosystem's Main Refinancing Operation. This tool has two objectives: on

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<sup>7</sup> <https://www.ecb.europa.eu/ecb/legal/pdf/02011o0014-20130103-en.pdf?c97c5aefa656c2ea0d2c8a7ef8b3de1a>

one hand it stabilizes the money market interest rates (this interest rate is the interest at which banks will lend or borrow cash to other banks depending on the situation of excess or need) on the other, it creates or enlarges structural liquidity shortages.

### 1.3.3 Banque de France and the banking system: the performers

#### 1.3.3.1 *Banque de France*

The Banque de France, created in 1800, was the direct consequence of the French revolution of 1789 that led to the Declaration of the Rights of Man and of the Citizens. Nowadays, even if the Banque de France, due to the organization of the Eurozone's banking system, takes part in the definition of monetary policy, we cannot consider it as a decision maker. However, it helps implementing the monetary policy by, for instance, providing liquidities or receiving and paying interest on banks' minimum reserves.

#### 1.3.3.2 *The banking industry*

As mentioned previously, commercial banks, being a direct interface with the economy are vital to the implementation of the monetary policy. Allowing money to be injected into the system, banks directly pass on the ECB's instructions. France is currently the third European country behind United Kingdoms and Germany in terms of total assets representing 17.70% of the European banking sector value. In 2012, the total assets for the French banking industry approached \$10,378.3bn. In comparison UK's were worth \$12,358bn and Germany \$10,571.9bn<sup>8</sup>. The French banking industry is concentrated into six groups: BNP Paribas, Credit Agricole, Société Générale, Banque Populaire - Caisse d'Epargne, Credit Mutuel – Crédit Industriel et Commercial and HSBC<sup>9</sup>.

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<sup>8</sup> MarketLine Industry Profile. 2013. "Banks in France".

<sup>9</sup> See Appendix 1

#### 1.3.3.2.1 Commercial banks as a provider of liquidities

In 2013, Non-Financial Companies' credits only grew by 0.20% after an increase of 1.0% in 2012. Also, NFCs amplified the use of financial markets to finance their investments. Although we know that big companies, for instance from the CAC 40 Index, traditionally borrow money from the financial markets, we face a recrudescence of middle companies funding themselves like large ones with financial products such as straight bonds. This can be explained by the fact that banks are facing more restrictions regarding lending facilities compared to before the 2008 financial and economic crisis. There are two potential reasons. First, they do not trust the borrowers and fear the counterparty risk leading to a payment default and thus, prefer not to take the risk of lending money. The second situation is the so called credit crunch which will be explained later on. Regarding households, even if credits increased more importantly in France than in the Eurozone, the growth rate of household credit on 12-month time gradually decreased from July 2011 (+7.3%) to January 2013 (+1.7%)<sup>10</sup>. This can be explained by the unwillingness from the banks to provide credits, but also from the consumers to invest during a period of crisis.

### 1.4 A common monetary policy for an heterogeneous area

The designing of a common monetary policy for an heterogeneous area encompassing 18 countries is an arduous task. Depending on the country's economic variables the monetary policy's impact could differ. Indeed, the fact that the nations are not at the same economic cycles makes the needs regarding the monetary policy different. Some countries such as France, Portugal or Italy have a very low level of inflation as well as a very low nay negative growth rate. Therefore, the best way to enhance both indicators in those countries would be the practice of an expansive monetary policy leading to lower

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<sup>10</sup> Source: Annual Report Banque de France 2013

interest rates. Conversely, others have a high level of inflation and growth, which means that a restrictive monetary policy, leading to raise interest rates would be more adjusted. To better understand if the different countries would get the same answer to the policy, M. Barigozzi, A. Conti and M. Luciani addressed the following question: “Do Euro area countries respond asymmetrically to the common monetary policy?” In order to answer, they realized a model called Structural Dynamic Factor model taking into consideration data such as the GDP, inflation, investment and unemployment. Hence, they have figured out that some variables such as price and unemployment reacted differently. However, as they explained, “these differences can hardly be controlled by means of the common monetary policy, rather they should be addressed by means of national fiscal policies, regulation and structural reforms.”

## **2 French economy and ECB’s monetary policy**

### **2.1 Confidence investment consumption: “the animal spirit”**

#### **2.1.1 An economy based on consumption and a strong social heritage**

Since 2008, France has faced a degradation of buying power and employment. As a result, confidence has been impacted and investment has plummeted. It is essential to understand that confidence is a key element within a healthy economy. J.M. Keynes<sup>11</sup>, in 1936, has chosen the term “Animal Spirits” in order to emphasise the role played by confidence within an economy. In 1997, Jason Bram and Sydney Ludvigson in the paper “Does Consumer Confidence Forecast Household Expenditure? A Sentiment Index Horse Race” addressed the question of the relation between consumer confidence and household expenditures. Analysing two recognized index of consumer confidence in the US: University of Michigan’s Consumer Sentiment Index and The Conference

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<sup>11</sup> John Maynard Keynes (1883-1946) is a British economist known mainly for its theory of the Keynesian economics

Board's Consumer Confidence Index by , they have figured out that confidence would be a very good predictor for consumption in certain categories of products and services. Therefore, as the French economy is based on consumption, as soon as confidence is low, the whole system is impacted. Moreover, confidence is also a matter of trust in all economic agents. Banks, due to their contribution to the economic crisis, currently suffer from a tangible lack of trust from the economy. The sentiment indicator of the country before the crisis was 110.8 (January 2007). It collapsed during the following years to recently reach 97.5 (January 2014)<sup>12</sup> six years after the beginning of the crisis.

Investment and credits are two relevant factors that reflect really well an economy's situation. It is essential to understand that because doubts are abundant in many domains, individuals and businesses are in a wait-and-see position. Therefore, when looking at the consumer credit growth rate in France from 2006 to 2014<sup>13</sup>, we can clearly identify a trend moving downward illustrating a decline in individuals' investments. However, we must take into consideration that even if the decline in consumer credit arises from a lack of confidence from individuals, it could emanate from a lack of confidence from banks as well.

France is also a country based on a social model and as part of it, over time, French people have acquired many different social benefits. For instance, a strong welfare system has been created in 1945 aiming to give everyone access to care. More recently, the 35-working hour/ week reform has been voted. This type of model is very expensive for a country in a way that it requires large expenditures from the government, businesses and individuals. An economic crisis can be fatal to it. With the crisis the

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<sup>12</sup> See Appendix 2

<sup>13</sup> See Appendix 3

European Union and France are currently facing, the wealth creation is definitely not important enough to keep this model unchanged. However, the abolition of certain social benefits could provoke a significant economic downturn creating a strained social and political context which could bolster the damaging of the economy.

## 2.2 A worrying low growth and inflation

While 2012 was marked by stagnation, France had a better economic growth rate than the Eurozone with 0.20% in 2013<sup>14</sup>. Household consumption increased by 0.40% and exportation raised by 0.60%. However, investment dropped down of 2.10% and importation increased more than exportation with 0.80%<sup>15</sup>. Regarding inflation, within the Eurozone the consumer price index increased by 1.30% in 2013 while it was 2.50% one year earlier. In France, this index augmented by 1.0% in 2013 whereas it was 2.20% in 2012<sup>16</sup>. Let us recall that the European standard is set at 2.0%. The fact that Eurozone and France are currently facing a deflationist environment is mainly due to external factors such as the appreciation of the Euro's exchange rate which decreases the price of imported goods especially raw materials. Indeed, in the Eurozone, the price of imported goods decreased by 2.70% in 2013 after a meaningful increase of 3.40% in 2012.

Consumption and investment are not the only elements that could slow down an economy. Indeed, changes in the price of raw materials (especially energies), risk of deflation and even geopolitics issues have to be taken into consideration. For instance, the non-agreement of some OPEC<sup>17</sup> countries to reduce the petroleum production could sustainably decrease the price of fuel in importation

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<sup>14</sup> See Appendix 4

<sup>15</sup> Source: Annual report Banque de France 2013

<sup>16</sup> See Appendix 5

<sup>17</sup> Organization of Petroleum Exporting Countries

## **2.3 Need for an expansive monetary policy**

### **2.3.1 ECB's monetary policy matches the situation of France**

When taking into consideration the state of the French economy, it appears important to boost the economy by decreasing the key interest rates and increasing the money supply. This would impact the inflation and make it grow in a certain way. This kind of monetary policy is called expansive monetary policy. Adapted to country facing a very low rate of economic growth and inflation, this policy would make the cost of borrowing less expensive leading to boost investment. Nowadays, the ECB's approach is more focused on an expansive monetary policy. Indeed the key interest rates have never been as low which should facilitate the access to credit for all the economic agents.

## **3 Obstacles to the monetary policy**

In response to the economic crisis, the monetary policy leads to restore the economic growth mostly by increasing money supply. However, despite all the measures taken to this effect, many different complications show up. Of course, while some of them are directly due to the economic climate, structural issues could prove to represent a hindrance leading to damage or even annihilate the expected effects of the ECB's monetary policy.

### **3.1 Structural issues**

#### **3.1.1 Sectorial specialization: Dalum, Laursen and Verspagen**

Different empirical works have figured out that orientating an economy toward international trade would enable a country to benefit from competitive advantages and develop sectors with potential scale gains if the country is specialized in areas where the growth of the global demand is the strongest. For many years, France has seen its

competitiveness declining at the international stage. The strong value of the Euro is one, but not the only reason for that. Germany, using the same currency and having an economy strongly based on exportations still exports a lot. The sectorial specialisation is a key reason. Indeed, France has suffered a lot from the increasing competition of emerging countries and did not really succeed to adapt so far. Thus, the country experienced a substantial slowdown in the following industries: IT & Electronics, Textiles & Clothing and Metallurgy. The most affected industry was the automotive industry when the largest French company, Renault, outsourced a major part of its production. However, the country still has competitive industries among which we find agri-food, aeronautic, pharmaceutical, and wines and spirits. When comparing the French sectorial specialization with the architecture and changes of the global demand we can better appreciate why the trade deficit keeps on rising since the early 2000's<sup>18</sup>.

B.Dalum, K.Laursen and B.Verspagen directed a research in order to better understand if growth performances were influenced by the sectorial specialization of a country or not. In order to build this analysis they made a regression model considering two hypotheses. The first one recognized that some activities would be more enhancing for growth than others while the second one specified that only labour and investment or technical change could affect growth. This further enabled to assume that, the sectorial specialization matters for economic growth. Also, André Lorentz, in his working paper "Sectoral Specialisation and Growth Rate Differences Among Integrated Economies" stated "specialisation patterns are linked to the competitiveness of the economies in the various sectors. They then affect growth rate differences due to the existence of differences in the growth potential of each sectors".

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<sup>18</sup> See Appendix 6



### 3.1.2 An economy mostly based on services

France is facing, for decades now, a progressive expansion of the tertiary sector<sup>19</sup> of its economy leading to a very though development of business services. Also, right after the crisis in 2008, if France has not been as impacted as Germany, it is mainly due to the strong exposure of its economy to the service sector. Hence, having a dependence of the global demand less important enables to be, in a certain way, protected from the direct effect of a drop of the global trade. However, as mentioned in “Sustainable Growth, Employment creation and technological integration in the European Knowledge-Based Economy” from The Review of Theoretical Literature written in collaboration by different organisms, the sector of services does not show high productivity growth compare to the manufacturing sector. That is why an economy mainly based on low productivity growth industry could prove to be an obstacle to a new founded growth.

### 3.1.3 High level of taxation, labour cost and lack of flexibility

Nowadays, compare to the other countries from the Euro Area, France has a high level of taxation. In 2012 France had the third highest tax-to-GDP ratio of the 28 European Union countries with 45% whereas the EU-28 average was 39.4%<sup>20</sup>. The largest part of the taxes mainly comes from indirect taxes and employers' social contributions. It would be logical to assume that the fiscal policy of a country impacts the economic growth. Indeed, depending on the level of taxation, companies are more or less willing to have an activity within the country in question. In France, the labour cost is very high and companies have to pay important taxes on their earnings. Thus, some of them have already changed their headquarters' implantation in order to diminish the amount due to

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<sup>19</sup> See Appendix 7

<sup>20</sup>[http://ec.europa.eu/taxation\\_customs/resources/documents/taxation/gen\\_info/economic\\_analysis/tax\\_structures/country\\_tables/fr.pdf](http://ec.europa.eu/taxation_customs/resources/documents/taxation/gen_info/economic_analysis/tax_structures/country_tables/fr.pdf)

the government and benefit from a better fiscal environment in another country. However, we cannot simply assume that a high level of taxation would be a threat to the economic growth rate. Indeed, as concluded in “Fiscal Policy and Growth: Evidence from OCDE countries” from R. Kneller, M F. Bleaney and N. Gemmell there is another key element to take into consideration when analysing the impact. In this paper, the authors, after having made a regression on 22 OCDE countries including a key factor which is the government budget constraint, concluded that “the impact of fiscal policy on growth depends on the structure as well as the level of taxation and expenditure”. However, the country must be very careful not to overtake a certain level of taxation above which it would not only impact confidence, consumption and investment, but also damage the political and social context.

### **3.2 Political and social context**

The political and social context is an important factor having a non-direct effect on growth. Indeed as mentioned above, France has acquired over time different social benefits that are very expensive and not always productive. Keeping these social benefits intact would represent a tremendous effort from the government but also from the different economic agents. One might say that it would be relevant to reduce some of them in order to make savings. However, the established social culture in France even the idea to enter a period of austerity could generate critical social movements which would participate in paralysing the economy.

### **3.3 Bank regulation and the credit crunch**

The credit crunch is the unwillingness of commercial banks to provide loans to the real economy. It often happens during crisis periods when banks are concerned about the creditworthiness of the borrowers or about their own solvency. The Third Basel Accord

has been created following the crisis of 2007 in order to strengthen the banks by increasing liquidities and reducing leverage. In order to respect the ratios imposed by Basel III, banks tend to reduce their loan supply and keep the cash they get from central banks. This is what is happening in Japan where banks are taking advantage from the very low interest rates set by the Bank of Japan in order to consolidate their financial health and solvability. Besides, J. Peek and E. Rosengren in their paper “Bank regulation and the credit crunch”, although a correlation was already established between capital ratios and credit crunch, demonstrated that as the capital ratios requirements were set by a regulatory organism, the loan supply contracted more and faster. Nowadays, in France, the credit-crunch is defined by two different ways. On one hand, there is a decline in the amount granted to borrowers in order to reduce the risk. On the other hand, there is a tightening of contractual modalities that makes the action of borrowing and paying back harder.

## Conclusion

Nowadays, France is considered as one of the driving economies that currently pull the Eurozone up. However, since 2008, as most of the other European countries, France is experiencing a severe financial and economic crisis. The economic growth keeps on stagnating while inflation gets lower and lower. A long period of low inflation and growth could durably plunge the country into a deflationist environment and a long period of wait-and-see attitude. In order to remedy this situation the ECB has put into being an expansive monetary policy by mostly cutting down interest rates in order to increase money supply. This analysis led us to assume that the current monetary policy presents two different problems. First of all, being discussed and defined at the European level for heterogeneous countries, it does not necessarily encompass structural issues France is facing, such as the architecture of its sectorial specialisation or the tertiarisation of the economy. Also, in order to put in practice its monetary policy, the ECB is very dependent on the retail banking since one of the only way to inject liquidities in the economy is the loan supply. The current economic climate and the capital ratios requirements that followed 2008 still complicate the providing of money by pushing banks to reduce the providing of loan: credit crunch.

Ben Bernanke<sup>21</sup> said: “Monetary policy cannot do much about long-run growth, all we can try to do is to try to smooth out periods where the economy is depressed because of lack of demand”. Starting from this point, it is important to understand that a monetary policy is not omnipotent and cannot, by itself, boost an economy. The monetary policy should only be the trigger to a new founded economic growth while the bulk of the work should be incumbent upon the government. Indeed, the strengthening of the

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<sup>21</sup> Ben Bernanke is an American economist who served two terms at the Federal Reserve

French economy is not possible with the only ECB's monetary policy. In France, the government has a major role to play. It urgently needs to soften structural and fiscal barriers in order to make the country more competitive on the international stage. This way, the increase of money supply decided by the European Central Bank will be more able to impact the economy as it would be widely encouraged by all the different economic agents.

Thus to answer the question initially addressed, the current monetary policy, as it is expansive, is convenient for France. But still some country-based issues are not necessarily taken into consideration and these can prove to be real obstacles regarding the effectiveness of the policy. Besides, due to the dependence of the policy on the banking system, factors such as banking regulation and the credit crunch could even stop the European Central Bank in the implementation of the policy.

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## Appendices

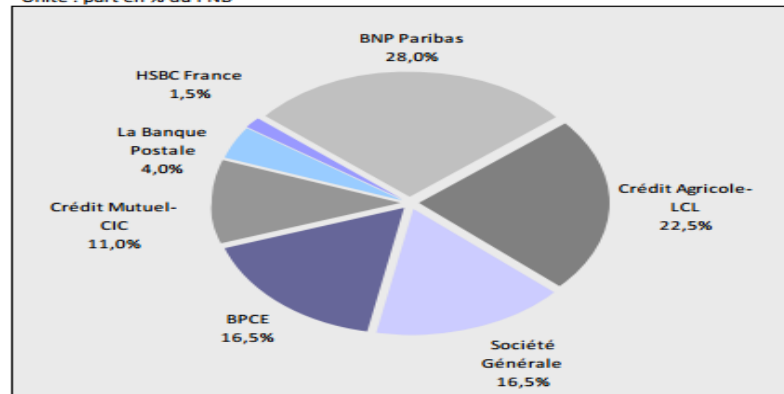
### Appendix 1: French banking industry

Le secteur bancaire en France est caractérisé par une très forte concentration. Les 4 premiers groupes bancaires, à savoir BNP Paribas, Crédit Agricole, Société Générale et BPCE ont réalisé plus de 83% du PNB en 2013.

Sur la période 2011-2013, la part d'activité réalisée par le Crédit Mutuel-CIC a bien progressé (+1,4 point).

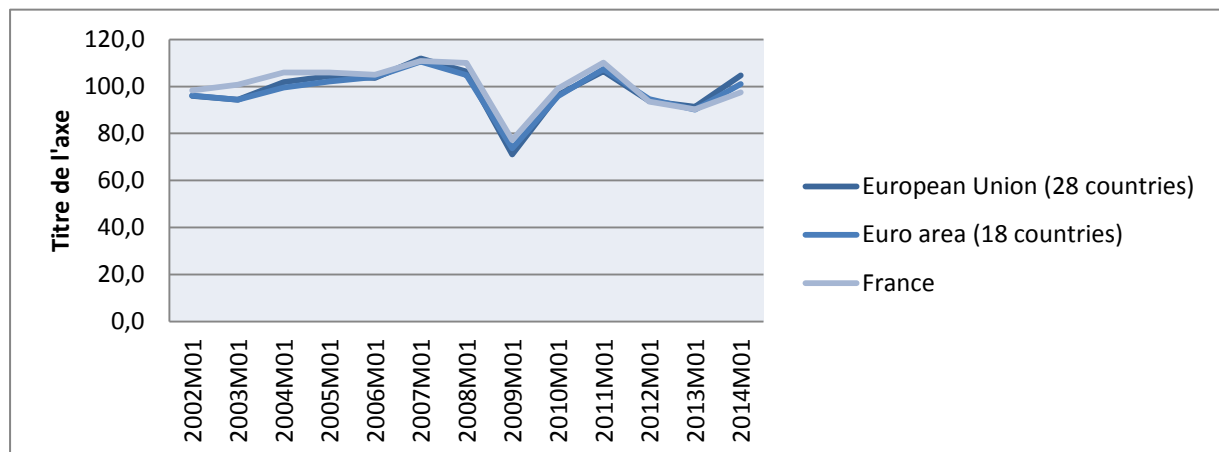
#### Concentration des activités bancaires

Unité : part en % du PNB



Traitement Xerfi, d'après opérateurs, données 2013

### Appendix 2: French Economic Sentiment Indicator

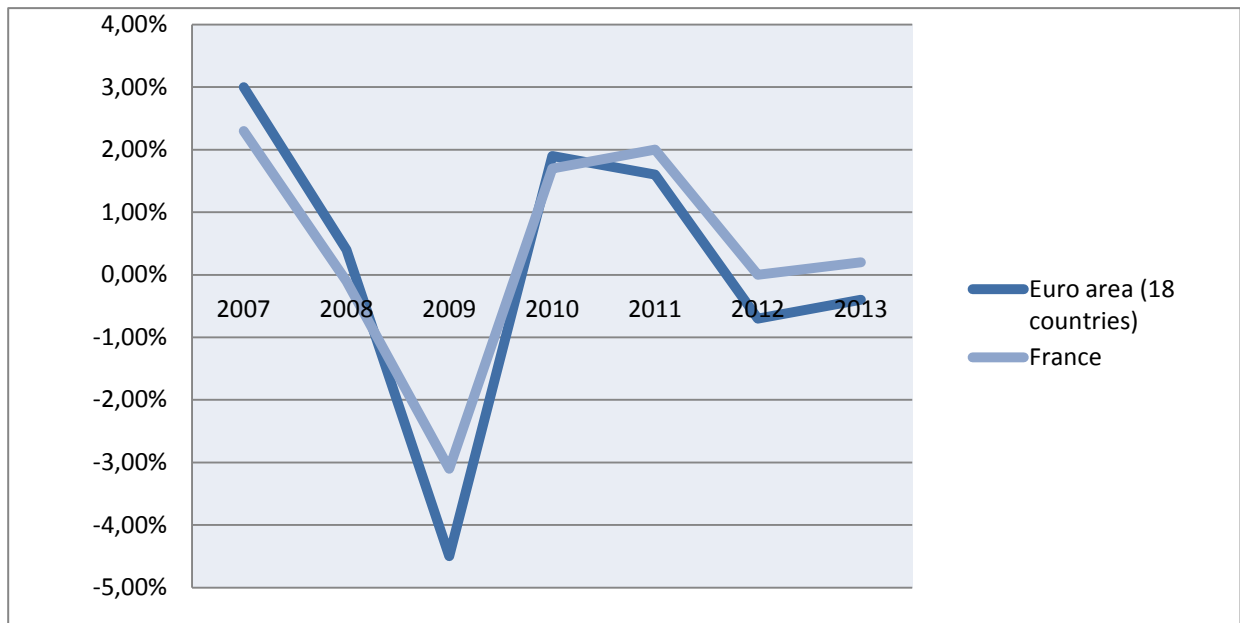


Source of data: EuroStat

### Appendix 3: Consumer credit annual growth rate in France

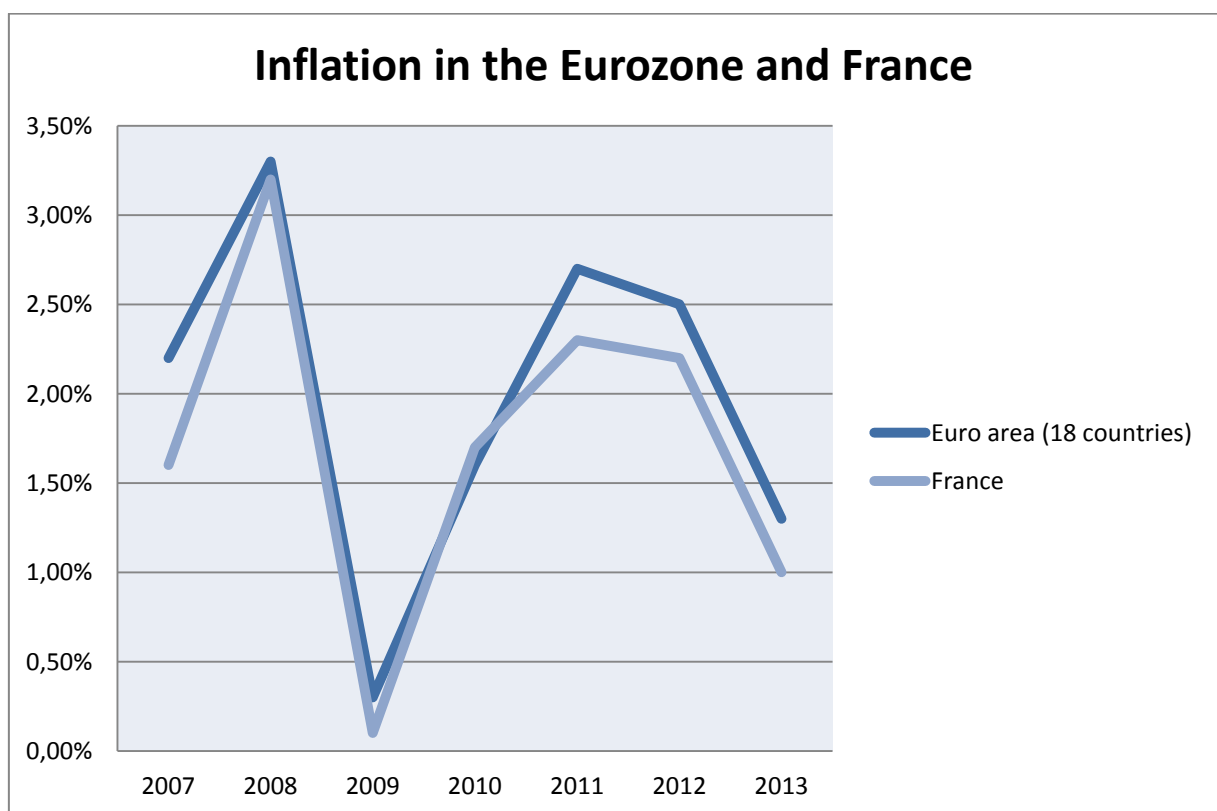


## Appendix 4: GDP of the Eurozone and France



Source of data: EuroStat

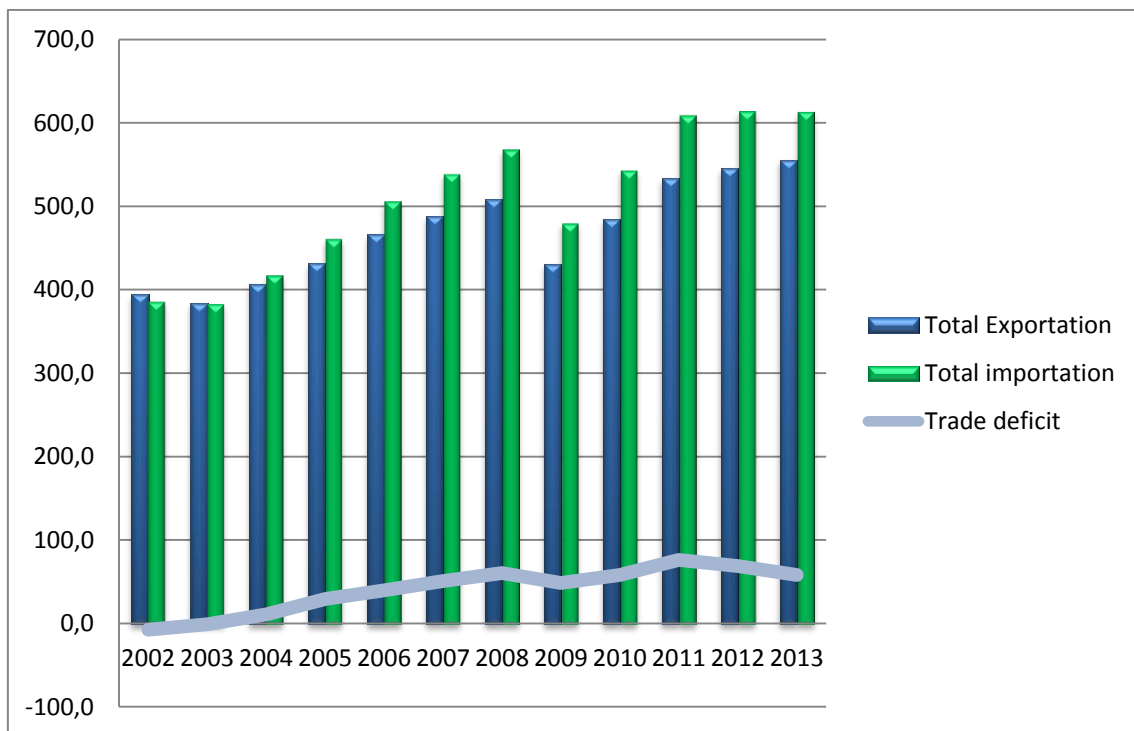
## Appendix 5: Inflation of the Eurozone and France



Source of data: EuroStat

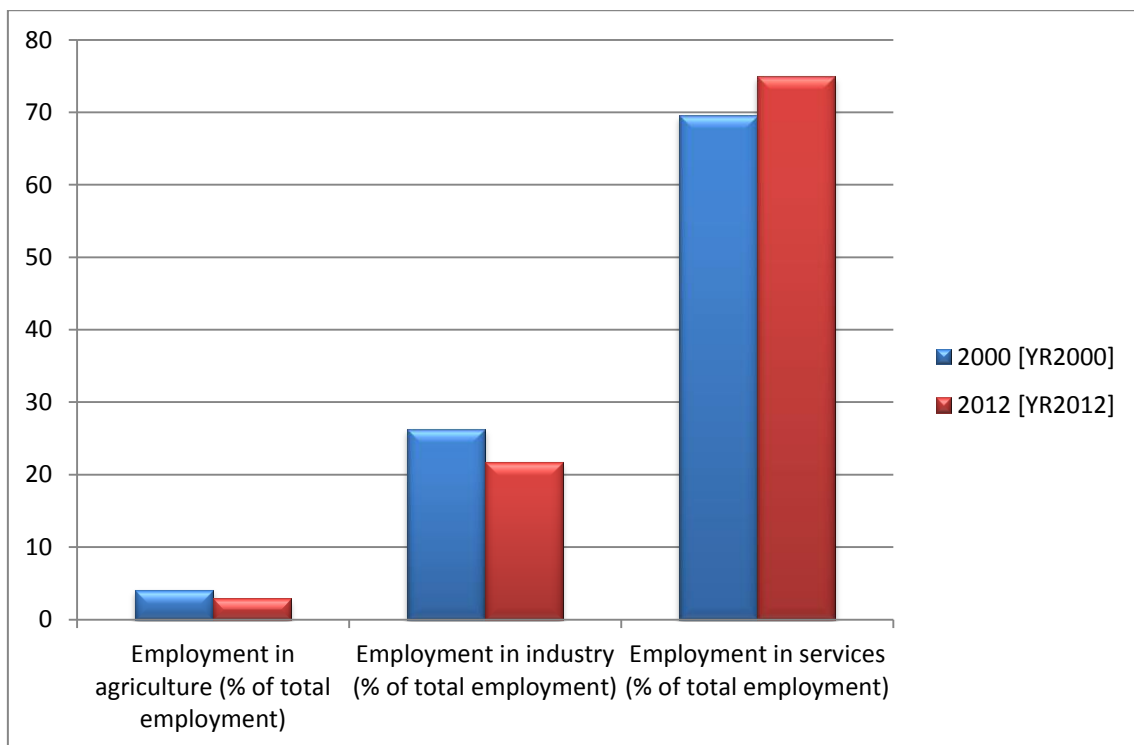


### Appendix 6: France's Exports, Imports and Trade Deficit in Bn€



Source of data: EuroStat

### Appendix 7: Employment by sector between 2000 and 2012



Source of Data: World Bank